

HOW HOMEBUILDERS AND HOMEOWNERS CAN SAVE MONEY WITH EPACT 2005

by

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The Energy Policy Act of 2005 (EPACT 2005) is the first attempt to address national energy policy since the Energy Policy Act of 1992. It offers both residential homebuilders and homeowners tax incentives for a number of energy efficiency measures.

A tax deduction reduces the total income on which the total tax is computed. A tax credit is deducted directly from the total tax liability. A tax credit may be more advantageous to a taxpayer than a deduction. For example, a tax credit of \$1,000 for someone in the 28% tax bracket is equivalent to a tax deduction of \$3,571.

EPACT 2005 also provides tax credits of 10% of the amount expended by the taxpayer for qualified energy efficiency improvements to existing homes, and up to \$300 for qualified energy property. The maximum tax credit for either category, or a combination of the two, is \$500. These incentives apply to improvements placed in service during 2006-2007.

EPACT 2005 provides tax credits on “energy improvements” or “energy property” as follows:

Qualified energy improvements are insulation material, exterior windows and doors, and metal roofs with pigmented coatings designed to reduce heat gain. All of the above must meet ENERGYSTAR requirements.

Qualified energy property is defined as:

- Electric heat pump water heaters with an Efficiency Factor (EF) of 2.0 or greater
- Electric air source heat pumps with a Heating Season Performance Factor (HSPF) of 9.0 or better
- Geothermal heat pumps:
 - a. Closed loop products with an Energy Efficiency Ratio (EER) of 16.2, and a Coefficient of Performance (COP) of 3.3 or greater.
 - b. Open loop products with an EER of 14.1 and a COP of 3.3 or greater.
 - c. Direct Expansion (DX) products with an EER of 15 and a COP of 3.5 or greater.
- Heating Ventilating and Air Conditioning (HVAC) system that receives the highest efficiency tier established by the Consortium of Energy Efficiency as of January 1, 2006
- Natural gas, propane, or oil water heater with an EF of .80 or greater
- Natural gas, propane, or oil furnace or hot water boiler with Annual Fuel Utilization Efficiency (AFUE) of 95% or greater
- Advanced main air circulating fan used in natural gas, propane, or oil furnace that uses no more than 2% of the total energy use of the furnace

Tax credit limitations on qualified energy property are as follows:

- \$50 on any advanced main air circulating fan

- \$150 on any qualified natural gas, propane, or oil furnace or hot water boiler
- \$300 for a high efficiency air conditioner

Summarized in Tables 1 & 2 below are the potential tax credit items for residential homebuilders and homeowners. The incentives apply to equipment placed in service during 2006-2007.

Table 1. Tax Credit Items for a Homebuilder or Homeowner for New or Existing Homes

<ul style="list-style-type: none"> • Tax credits for solar hot water systems - the potential tax credit is 30% of the qualified solar system expenditures up to a maximum of \$2000. • To be eligible for the solar hot water system tax credit, the overall system must be certified by the Solar Rating and Certification Corporation (SRCC) and must produce 50% (or more) of the hot water required by the residence.
<ul style="list-style-type: none"> • Tax credits for Residential Solar Photovoltaic (PV) systems - the potential allowable tax credit is 30% of the qualified PV system expenditures up to a maximum of \$2000. • There is no certification required for PV systems.
<ul style="list-style-type: none"> • Homeowners may claim tax credits for either or both types of solar systems.
<ul style="list-style-type: none"> • Tax credit for residential fuel cells: Providing a residential fuel cell offers the owner a 30% tax credit (up to a maximum credit limitation of \$500 for each 500 watts of installed capacity).

Table 2. Tax Credit Items for a Homebuilder or Homeowner for New Homes

EPACT 2005 offers homebuilders a tax credit of \$2,000 for homes that reduce energy for heating and cooling by 50% compared to the 2006 International Energy Conservation Code (IECC) Supplement.
<ul style="list-style-type: none"> • Eligible homes have to demonstrate energy savings through the use of software approved by the U.S. Department of Energy (DOE), and builders must demonstrate compliance through the use of third party inspectors such as Residential Energy Services Network (RESNET) Certified Energy Raters.
Manufactured home producers may qualify for a tax credit of \$1,000 for new manufactured homes that reduce energy consumption by 30%.
<ul style="list-style-type: none"> • To qualify, the new manufactured home must be in compliance with the Housing and Urban Development Code (HUD), Section 3280, Title 24, must be 30% more efficient than IECC 2006 for qualified energy improvements, or meet the ENERGYSTAR labeled homes program.
These tax incentives apply to site built homes and manufactured homes placed in service and sold prior to January 1, 2008. However, there is the possibility that they may be extended through 2009.

Further information on EPACT 2005 (including commercial applications, etc.) can be found at the following links: <http://dnr.louisiana.gov/tad>, <http://www.aceee.org>, or <http://www.fsec.ucf.edu>.